THE COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE

EASTERN CASUALTY INSURANCE COMPANY

Marlborough, Massachusetts

As of December 31, 2005

NAIC COMPANY CODE 39659

NAIC GROUP CODE 1591

EMPLOYERS ID NO. 04-2724166

EASTERN CASUALTY INSURANCE COMPANY

TABLE OF CONTENTS

COMMONWEALTH OF MASSACHUSETTS
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May 14, 2007

Honorable Alfred W. Gross, Chairman
Financial Condition (E) Committee, NAIC
Commissioner of Bureau of Insurance
Commonwealth of Virginia
PO Box 1157
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Honorable Thomas E. Hampton
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Honorable Nonnie S. Burnes
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
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Honorable Commissioners:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4 an examination has been made of the financial condition and affairs as of December 31, 2005 of the

EASTERN CASUALTY INSURANCE COMPANY
Marlborough, Massachusetts

at its home office located at 325 Donald J. Lynch Boulevard, Marlborough, Massachusetts 01752. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Eastern Casualty Insurance Company (hereinafter referred to as "the Company") was last examined as of December 31, 2002 under the association plan of the National Association of Insurance Commissioners ("NAIC") by the Massachusetts Division of Insurance ("the Division"). The current association plan examination was also conducted by the Division and covers the three year period from January 1, 2003 through December 31, 2005, including any material transactions and/or events subsequent to the examination date and noted during the course of the examination.

The examination was conducted in accordance with standards and procedures established by the NAIC Financial Condition (E) Committee and prescribed by the current NAIC Financial Condition Examiners Handbook.

In addition to a review of the financial condition of the Company, the examination included a review of the Company's business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bonds and other insurance, employees' pension and benefits plans, disaster recovery plan, treatment of policyholders and other pertinent matters to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

The Company's most recent audit by an independent certified public accounting firm in accordance with 211 CMR 23.00, was performed by PricewaterhouseCoopers LLP for the year ended 2002. The Company has been exempt from annual audits in accordance with 211 CMR 23.00 which states that insurers having both direct premiums written of less than $1,000,000 in any calendar year and less than 1,000 policyholders shall be exempt from 211 CMR 23.00. It is recommended that the Company obtain an annual review of their financial statements to ensure the quality of the financial reporting.

The Division engaged the actuarial services of Ernst & Young LLP ("E&Y") to perform an independent actuarial review of the Company's loss and loss expense reserves as prepared by the Company. The Company did not have an independent actuarial opinion for the year 2005. An independent actuarial opinion was issued for year end 2004 by an appointed actuary, Milliman USA, Inc. A summary of E&Y's review of the Company's loss and loss adjustment expense reserves is included in the "Notes to the Financial Statement" section of this report. It is recommended that the Company have annual independent actuarial reviews of their loss reserves.

HISTORY

General

The Company was incorporated as a stock company under the laws of the Commonwealth of Massachusetts on July 14, 1980. A certificate of authority was granted on July 18, 1980, which allowed the company to issue workers' compensation insurance policies. The Company issued its first policy effective August 1, 1980.

From 1980 to 1992, the Company directed its writing to insure businesses in the restaurant and hospitality industry. Beginning in 1993, the Company expanded its writings to the general market. In 1994, the Company became a servicing carrier for the Massachusetts Workers' Compensation Assigned Risk Pool. In 1996, the Company moved its home office site to leased space in Marlborough, Massachusetts.

In 1999, the Company began issuing workers' compensation policies in New Hampshire, Rhode Island and Vermont. Additionally the Company began offering Commercial Package Policies and Umbrella coverage in Massachusetts and Rhode Island. In 2000, the Company started writing workers' compensation business in Connecticut.

In October 2000, the Company formed a New Hampshire domiciled insurer, Eastern Casualty Indemnity Company. Eastern Casualty Indemnity Company never wrote any business and in December 2001 its operations were terminated by way of a statutory merger into Eastern Casualty with Eastern Casualty being the surviving entity.

In January 2001, the Company purchased Alliance Assurance Company of America ("Alliance"), a New York domiciled company with licenses in 33 jurisdictions. Alliance does not currently write any business and has no loss or loss adjustment expense reserves outstanding. At the time of the sale all past obligations of Alliance were assumed by their parent company at the time, Globe Indemnity Company, by virtue of an assumption reinsurance agreement which was approved by the New York Insurance Department.

In June 2001, the Company made the decision to cease writing new workers' compensation business in Massachusetts and in September 2001, the Company announced it was exiting the Massachusetts workers' compensation market altogether. The Company began non-renewing policies effective October 1, 2001 and all policies expired by November 2002. The Company is currently operating in "run-off" mode, and plans to continue servicing claims to their eventual settlement.

Capital Stock

On December 28, 1999, the Company cancelled their common capital stock consisting of 10,000 common shares at a par value of $200 per share. The Company then issued new common capital stock consisting of 25,000 shares of $200 par value to their parent company, North American Enterprises, Inc.

Dividends to Stockholder

Massachusetts Law permits the payment of ordinary dividends to stockholders without prior approval of the Commissioner, but is limited to the greater of ten-percent of surplus as of the preceding year-end or the prior year's net income. Dividends in excess of these limitations are considered “extraordinary dividends” and require prior approval of the Commissioner. For the current examination period no extraordinary dividends have been declared or paid. During the examination period ordinary dividends paid to stockholders were as follows:

Year	Total Dividends Declared and Paid
2005	$ 0
2004	5,000,000
2003	8,000,000

Growth of Company

The growth of the Company for the years 2003 through 2005 is presented in the following schedule which was prepared from the Company’s Annual Statement. The 2005 amounts include changes resulting from this examination.

Year	Admitted Assets	Net Premiums Written	Surplus
2005	$ 87,021,222	0	$ 21,617,277
2004	110,771,562	(769,193)	26,637,998
2003	135,624,598	(1,367,498)	30,325,959

MANAGEMENT

Annual Meeting

In accordance with its bylaws, the Company’s annual meeting is held on the second Monday in May of each year. A majority of stockholders present at any meeting shall constitute a quorum. The minutes indicate that a quorum was obtained at each annual meeting held during the examination period.

Board of Directors

The bylaws provide that the board of directors shall have general control of the business and affairs of the Company and it may adopt such rules and regulations as it deems necessary or convenient for the proper conduct of such business and affairs.

According to the bylaws, the board of directors shall consist of not less than five directors as elected by the stockholders at the annual meeting. The number of directors may be increased or decreased at any time or from time to time by the stockholders or by vote of a majority of the directors then in office, except that the number of directors shall not be decreased to less than five, and any such decrease by vote of the directors shall only be made to eliminate vacancies existing by reason of death, resignation, or removal of one or more directors.

The minutes indicate that a quorum was obtained at each meeting held during the examination period.

At December 31, 2005, the board was comprised of five (5) directors, in compliance with Company bylaws. Directors duly elected and serving at December 31, 2005, with principal business affiliations follow:

Name	Title and Business Affiliation
James A. Radley	Chief Executive Officer, President and Treasurer, Eastern Casualty Insurance Company
Frank L. McNamara, Jr.	Secretary - Eastern Casualty Insurance Company
Mary Jane Peoples	Executive Vice President – Eastern Casualty Insurance Company
Stewart A. McIntire	Vice President – Eastern Casualty Insurance Company
Nina Terenzi	Employee – Eastern Casualty Insurance Company

Officers

Senior officers elected and serving as of December 31, 2005, were:

Name	Title
James A. Radley	Chief Executive Officer, President and Treasurer
Frank L. McNamara, Jr.	Secretary
Mary Jane Peoples	Executive Vice President

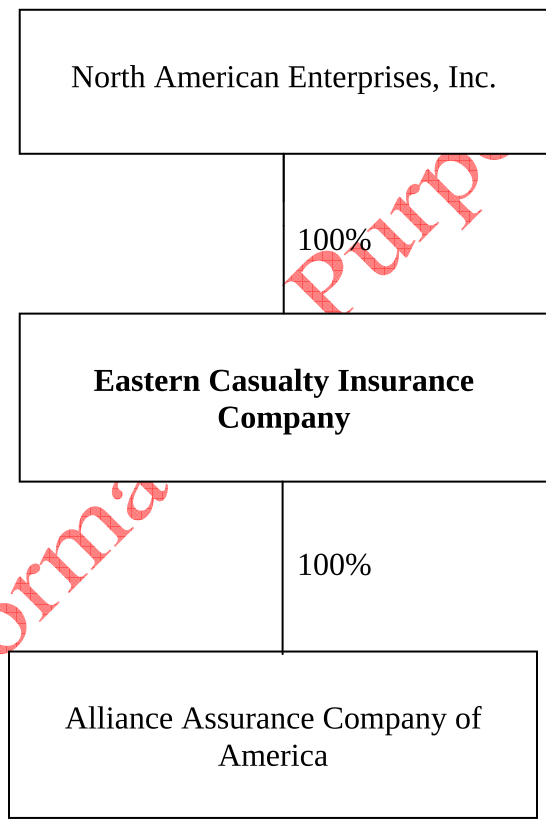
Conflict of Interest Procedures

The Company has a formal conflict of interest policy for the officers and directors of the Company which is required to be signed by each officer or director upon his/her election to the Board or his/her appointment as an officer of the Company. It is recommended that the Company obtain signed statements on an annual basis.

AFFILIATED COMPANIES

Per Form B as filed with the Division, the Company is a member a holding company system and is subject to the registration requirements of Chapter 175, Section 206C of the Massachusetts General Laws. The Company is a wholly owned subsidiary of North American Enterprises, Inc., a Delaware corporation engaged solely in the business of owning and providing management services to the Company. North American Enterprises, Inc. is the "Ultimate Controlling Person".

ORGANIZATIONAL CHART



Transactions and Agreements with Affiliates

Management Agreement

The Company has in place a management agreement with its parent, North American Enterprises, Inc, for which it pays an annual fee for a wide range of management services. The associated fee paid in 2005 was $2,200,000 and $900,000 was paid in 2006. The Company amended the agreement at the December 2002 board of directors meeting to cap the fee for calendar year 2003 and each year thereafter at $2,400,000 per year.

Tax Allocation Agreement

The Company files its federal income taxes on a consolidated basis together with its parent, North American Enterprises, Inc. and its affiliate, Alliance Assurance Company of America. There is not however, an inter-company or consolidated tax sharing agreement in place. It is recommended that the Company adopt a formal tax allocation agreement with North American Enterprises, Inc. and its affiliate, Alliance Assurance Company of America.

Building Lease

The Company has in place a building lease agreement for their home office building. The agreement is with West Bay Interests, LLC. The agreement is for the entire two story building containing approximately 77,500 square feet with rent at the rate of $2,325,000 per annum. The term of the lease is for the period that began on December 30, 1997 and expires on December 30, 2007.

Furniture and Equipment Lease

The Company leases furniture and equipment from an affiliated company, North American Leasing. Payments to North American Leasing were $1,556,000 in 2005 and $500,000 in 2006. There is not a lease agreement between the Company and North American Leasing. It is recommended that Company enter a formal lease agreement with North American Leasing.

STATUTORY DEPOSITS

The statutory deposits of the Company as of December 31, 2005 were as follows:

Location	Description of Deposit	Par Value	Statement Value	Market Value
Massachusetts	SSGA US Government Money Market Fund	$100,000	$100,000	$100,000
Massachusetts	US Treasury Notes 6.125% due 8/2007	400,000	400,305	410,592
New Hampshire	Citizens Select Prime Money Market	150,333	150,333	150,333
New Hampshire	RETAMA Texas Dev. Corp. 10% due 12/2016	2,480,000	3,404,696	3,498,214
Rhode Island	IBT Master Repo	557,336	557,336	557,336
	TOTAL ALL LOCATIONS	$3,687,669	$4,612,670	$4,716,475

FIDELITY BOND AND OTHER INSURANCE

The Company maintains fidelity bond coverage with an authorized Massachusetts insurer under a "Financial Institutions/Insurance Company Crime Insurance Bond" consistent with MGL's Chapter 175, Section 60. The aggregate limit of liability exceeds the NAIC suggested minimum. The Company has protected its interests and properties by purchasing policies of insurance covering other insurable risks. Coverages are provided by insurance companies licensed in the Commonwealth of Massachusetts and were in force as of December 31, 2005.

EMPLOYEE BENEFIT PLANS

The Company offers various insurance benefit plans including group life, dental and health insurance coverage to all full time employees. In addition the Company offers short and long term disability income insurance.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company's principal line of business is workers' compensation and its principal jurisdiction of operation is the Commonwealth of Massachusetts. The Company maintains their licenses in the seven states of Massachusetts, Connecticut, New Hampshire, Vermont, Rhode Island, New Jersey and New York. In addition and as noted in the "History" section of this report, the Company purchased Alliance Assurance Company of American which is licensed in 33 jurisdictions. However, effective in October 2001, the Company began non-renewing policies and as of November 2002, no policies were in-force. The Company is currently operating in run-off mode.

REINSURANCE

The Company's reinsurance program has essentially been dismantled with the run-off of operations. All in-force treaties/contracts have been terminated due to the Company's decision to discontinue its insurance operations. Outstanding claims contractually covered by a reinsurance treaty appear to have been properly administered and paid claims on covered losses have or are in the process of being submitted for reimbursement. The only "active" reinsurance activity stems from the Company's obligations to the Massachusetts and National Workers Compensation Pools, which is also considered a discontinued operation, as neither new exposures are ceded to nor assumed from the pool.

It was noted during the examination that the Company did not comply with the accounting procedures established by SSAP No. 63 under current NAIC Codification Guidelines requiring underwriting results associated with the underwriting pool to be reported on a gross basis. The Company has historically accounted for this business by reporting the "net" liability associated with its exposure to this pooled business as an aggregate write-in. It is recommended that the Company comply with all aspects of SSAP No. 63 in reporting their reinsurance in the annual statement.

ACCOUNTS AND RECORDS

The Company's internal control structure was reviewed through questionnaires, transaction testing and discussions with management. No material deficiencies were noted.

General controls in the information systems (IS) environment were assessed by the examiners and no material deficiencies were noted.

The Company has a plan for continuity of business and computer operations in the event of a catastrophe and has a contracted "hot site" feature for alternate-site resumption of computer operations.

The Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2005 Annual Statement. No material deficiencies were noted.

FINANCIAL STATEMENTS

The following financial statements reflect the assets, liabilities, capital and surplus as determined by our examination, showing the Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2005, together with a Statement of Income and Capital and Surplus as of December 31, 2005, and a Three Year Reconciliation of Capital and Surplus for the three year period ended December 31, 2005.

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division and the NAIC as of December 31, 2005.

Eastern Casualty Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2005

Assets	Per Company	Examination Changes	Per Examination	Notes
Bonds	$ 13,514,772	$ (800,000)	$ 12,714,772	(1)
Preferred stocks	375,000		375,000	
Common stocks	54,356,311	(2,718,329)	51,637,982	(2)
Mortgages loans - First liens	7,701,943		7,701,943	
Cash	3,231,394	742,695	3,974,089	(3)
Other invested assets	9,832,127		9,832,127	
Interest and dividend income due and accrued	242,803		242,803	
Reinsurance recoverables on loss and loss loss adjustment expense payments	502,258	(88,111)	414,147	(4)
Aggregate write-ins for other than invested assets	128,359		128,359	
Total Assets	$ 89,884,967	$ (2,863,745)	$ 87,021,222	

Liabilities and Policyholders' Surplus				
Losses	$ 27,376,545	$	$ 27,376,545	(8)
Loss adjustment expenses	3,000,000		3,000,000	
Borrowed money	20,000,000	207,971	20,207,971	(5)
Aggregate write-ins for liabilities - Outstanding checks / Abandoned Property		350,260	350,260	(6)
Aggregate write-ins for liabilities WC Assigned Risk Pool	14,170,866	298,303	14,469,169	(7)
Total liabilities	64,547,411	856,534	65,403,945	
Common capital stock	5,000,000		5,000,000	
Gross paid in and contributed surplus	1,000,000		1,000,000	
Unassigned funds (surplus)	19,337,556	(3,720,279)	15,617,277	
Surplus as regards policyholders	25,337,556	(3,720,279)	21,617,277	
Total liabilities and policyholders' surplus	$ 89,884,967	$ (2,863,745)	$ 87,021,222	

Eastern Casualty Insurance Company
Statement of Income and Capital and Surplus
For the Year Ended December 31, 2005

	Per Company	Examination Changes	Per Examination	Notes
Premiums earned	$	$	$	
Deductions:				
Losses incurred	(1,061,208)		(1,061,208)	
Loss expenses incurred	5,011,575		5,011,575	
Other underwriting expenses incurred	4,378,419		4,378,419	
Total underwriting deductions	8,328,786		8,328,786	
Net underwriting gain (loss)	(8,328,786)		(8,328,786)	
Net investment income earned	5,276,307	(200,302)	5,076,005	(3, 6)
Net realized capital gains (losses)	1,104,187		1,104,187	
Net investment gain (loss)	6,380,495	(200,302)	6,180,192	
Aggregate write-ins for miscellaneous income	766,885	(713,537)	53,348	(3)
Total other income	766,884	(713,537)	53,348	
Net income before dividends to policyholders and before federal income taxes	(1,181,407)	(913,839)	(2,095,246)	
Dividends to policyholders				
Net income, after dividends to policyholders but before federal income taxes	(1,181,407)	(913,839)	(2,095,246)	
Federal and foreign income taxes incurred				
Net income	$ (1,181,407)	$ (913,839)	$ (2,095,246)	
Surplus as regards policyholders, December 31 previous year	$ 26,637,998	$	$26,637,998	
Net income (loss)	(1,181,407)	(913,839)	(2,095,246)	
Change in net unrealized capital gains or (losses)	(61,810)	(4,630,365)	(4,692,175)	(2)
Change in nonadmitted assets		1,823,925	1,823,925	(2, 4)
Aggregate write-ins for gains and losses in surplus	(57,225)		(57,225)	
Change in surplus	(1,300,442)	(3,720,279)	(5,020,721)	
Surplus as regards policyholders, December 31 current year	$ 25,337,556	$ (3,720,279)	$21,617,277	

Eastern Casualty Insurance Company
Three Year Reconciliation of Capital and Surplus
For the Period Ended December 31, 2005

	2005	2004	2003
Surplus as regards policyholders, December 31 previous year	$ 26,637,998	$ 30,325,959	$ 28,723,370
Net income (loss)	(2,095,246)	33,851	6,453,407
Net unrealized capital gains or (losses)	(4,692,175)	(3,571,212)	2,221,892
Change in deferred income tax	-	-	(4,540,203)
Change in non admitted assets	1,823,925	4,849,400	5,467,493
Dividends to stockholders	-	(5,000,000)	(8,000,000)
Aggregate write-ins for gains and losses in surplus	(57,225)	-	-
Change in surplus	(5,020,721)	(3,687,961)	1,602,589
Surplus as regards policyholders, December 31 current year	* $ 21,617,277	$ 26,637,998	$ 30,325,959

* Per Exam

NOTES TO THE FINANCIAL STATEMENT

Note 1 – Bonds ($800,000)

The examiners have decreased the Company's Bonds investments to reclassify matured Bonds to Cash. This was an over site by the Company and this has been corrected on the 2006 Annual Statement.

Note 2 – Common Stocks ($2,718,329)

The total examination change is the result of two different adjustments to the asset value. The Company incorrectly had a non admitted asset value of $1,912,036 which was an error and the examination has increased the Common Stocks admitted asset value by this amount. The exam has decreased the value of Common Stocks by $4,630,365 to reflect the decreased value of the Company's wholly owned subsidiary, Alliance Assurance Company of America. The exam valuation was calculated in accordance with the goodwill limitations as stated in SSAP No. 68. The Company has correctly made the adjustments in the 2006 Annual Statement.

Note 3 – Cash $742,695

- The net adjustment to Cash is the result of four separate adjustments. As stated in Note 1, matured Bonds have been reclassified to Cash increasing the asset by $807,669. The larger increase to Cash of $7,669 than Bonds is from interest income credited to the Company's accounts and this amount increased the Net Investment Income Earned account on the Income Statement.
- The exam has decreased Cash by $238,137 to adjust the asset balance for old outstanding checks and an offsetting entry has been made to the Income Statement account for Miscellaneous Income. This entry was recommended in the 2002 Examination Report however, the Company did not file the required Abandoned Property Report with the Massachusetts Treasury.
- The exam has decreased Cash by $177,097 to reverse the Company's entry to write off outstanding checks from dormant accounts and an offsetting entry has been made to the Income Statement to decrease Miscellaneous Income. The exam then reclassified this same amount by debiting Cash and crediting the liability account, Outstanding Checks / Abandoned Property. The net effect of these two entries is a decrease to Miscellaneous Income and an increase to the liability account Outstanding Checks / Abandoned Property for the amount of $177,097.
- The exam increased the Cash account by $173,163, the amount outstanding checks that remain in the Company's active bank accounts and should be escheated. An offsetting entry has been made to the liability account Aggregate Write-Ins for Liabilities – Outstanding Checks / Abandoned Property

It is recommended that the Company file a Report of Abandoned Property with the Massachusetts Department of State Treasurer. This was also recommended in the previous Exam Report for the period ended December 31, 2002. The Company's failure to file the necessary Abandoned Property reports is in violation of MGL Chapter 200A, Section 7.

Note 4 – Reinsurance Recoverable on Loss and LAE Payments ($88,111)

The examiners have decreased the Reinsurance Recoverable account by the balance expected to be recovered from the Massachusetts Department of Industrial Accidents. The recoverable is actually for premiums however, the balance is overdue for exam purposes and has been reclassified as a non-admitted asset for statutory accounting purposes.

The Schedule F Part 3 amounts do not properly agree with other Annual Statement exhibits and schedules. The total of Schedule F Part 3 columns 7 plus 8 should agree with page 2, line 14.1, Amounts Recoverable from Reinsurers. The case reserves amount shown in Column 9 of Schedule F Part 3 should agree with the Underwriting and Investment Exhibit, Part 2A. In addition the Schedule F amounts should agree with the Schedule P Part 1 Summary amounts for ceded case reserves.

Note 5 – Borrowed Money $207,971

The exam has increased the liability to reflect the interest payable for the month of December 2005. The exam has decreased the Net Investment Income Earned account to reflect this investment expense. The Company has corrected this over site in the 2006 Annual Statement.

Note 6 – Aggregate Write-Ins for Liabilities –
Outstanding Checks / Abandoned Property $350,260

This liability has been established by the exam to segregate the Company's escheatable checks as discussed in Note 3. The exam recommends that the Company escheat the amount from dormant accounts of $177,097 and a total of $173,163 from active accounts. The Company should escheat the entire balance of this account to the Massachusetts Treasurer in accordance with MGL Chapter 200A.

Note 7 – Aggregate Write-Ins for Liabilities –
Workers Comp Assigned Risk Pool $298,303

The examiners have increased the liability by $298,303 to the amount shown on the year end pool statement. The Company has corrected this over site in the 2006 Annual Statement.

Note 8 – Loss and Loss Adjustment Expense Reserves

In conjunction with our regulatory examination of the Company's financial statements, the Division retained Ernst & Young LLP to review the reasonableness of the reserves for loss and loss adjustment expenses (LAE) of the Company as of December 31, 2005.

The review was conducted in a manner consistent with the Code of Professional Conduct and the Qualification Standards of the American Academy of Actuaries and the Standards of Practice adopted by the Actuarial Standards Board.

COMPARISON OF INDICATED GROSS DISCOUNTED RESERVES TO CARRIED GROSS DISCOUNTED RESERVES as of 12/31/05

	Low Point of Range	Select Point	High Point of Range
Ernst and Young Estimate	$32,548,000	$34,005,000	$36,068,000
Company Carried	33,756,545	33,756,545	33,756,545
Difference	1,208,545	(248,455)	(2,311,455)

COMPARISON OF INDICATED NET DISCOUNTED RESERVES TO CARRIED NET DISCOUNTED RESERVES as of 12/31/05

	Low Point of Range	Select Point	High Point of Range
Ernst and Young Estimate	$29,168,000	$30,625,000	$32,688,000
Company Carried	30,376,545	30,376,545	30,376,545
Difference	1,208,545	(248,455)	(2,311,455)

The results of E&Y’s actuarial review indicated that the Company’s reserves, on both a gross and net of reinsurance basis, fall within the indicated range of reserve estimates. The tables above summarize a comparison of E&Y’s reserve estimates on both a gross and net of reinsurance basis, to those carried by the Company as of December 31, 2005.

COMMENTS AND RECOMMENDATIONS

1. Furniture and Equipment Lease Agreement: The current and previous examinations disclosed opportunities to strengthen internal controls over the Company's transactions with certain affiliated parties. These opportunities, which are described below, involve controls over lease payments to an affiliate.

   The Company paid its affiliate, North American Leasing (NAL) $4,669,653 between 2003 and 2005 for rental of equipment, furniture, automobiles, computers, and other items without the formality of a written contract between neither of the two firms nor a listing of the specific items being leased. (NAL provides all items of furniture and equipment used by the Company in its operations – the Company's financial statements contain no balances for depreciable furniture or equipment). To adequately protect Company resources, Company managers should establish procedures to require an item-by-item listing in support of NAL's monthly lease invoice. Prior to payment of the invoice, NAL's listing should be compared to internal records (receiving reports, inventories, etc.) to ensure that the items are in the Company's possession and use. It is recommended that an agreement between the Company and NAL should be formalized to adequately protect the Company's interests and enhance its internal controls.

2. Annual audits of financial statements: It is recommended that the Company retain the services of a certified public accounting firm to review the financial statements on an annual basis in order to ensure the integrity of the financial reporting process.

3. Annual actuarial review: It is recommended that the Company retain the services of an independent actuarial firm to review the Company's loss and loss adjustment expense reserves on an annual basis.

4. Conflict of Interest: It is recommended that the Company adopt an annual conflict of interest disclosure statement that all officers and directors are required to complete on an annual basis.

5. Tax Allocation Agreement: It is recommended that the Company enter into a formal tax allocation agreement with North American Enterprises, Inc. and Alliance Assurance Company of America. The companies should formalize the tax issues and aspects between the entities that are participants on the consolidated tax return.

6. Reinsurance Reporting: It is recommended that the Company comply with all aspects of SSAP No. 63 in reporting their reinsurance in the annual statement.

ACKNOWLEDGEMENT

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company to the examiners during the course of the examination.

John M. Curran, CFE	Kenneth Plumb, CPA, CFE
Supervising Examiner	Examiner-In-Charge
Commonwealth of Massachusetts	Commonwealth of Massachusetts
Division of Insurance	Division of Insurance